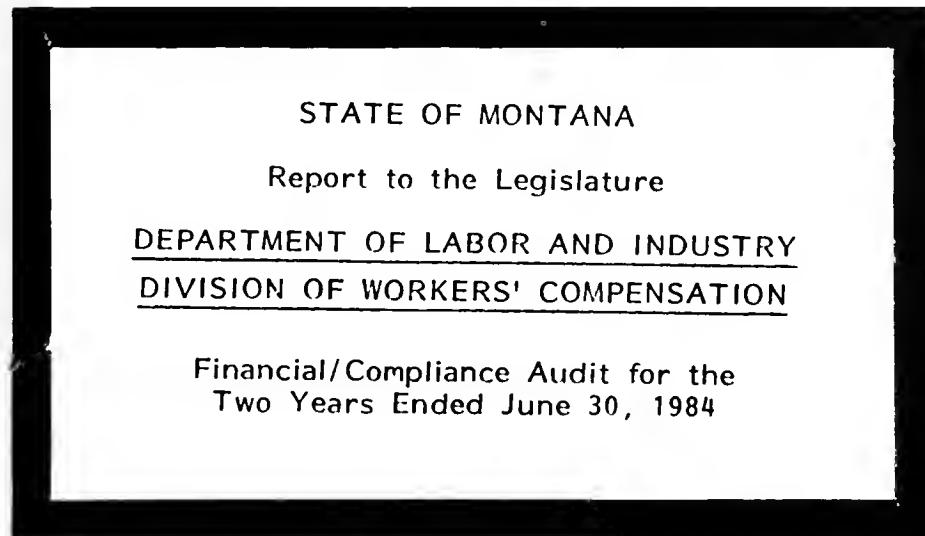


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STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF LABOR AND INDUSTRY  
DIVISION OF WORKERS' COMPENSATION

Financial/Compliance Audit for the  
Two Years Ended June 30, 1984

84-14

Office of the Legislative Auditor  
Room 135, State Capitol  
Helena, Montana 59620

MAY 1910QQ

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF LABOR AND INDUSTRY

David Wanzenried

Commissioner

DIVISION OF WORKERS' COMPENSATION

Gary Blewett	Administrator
William R. Palmer	Assistant Administrator
Carla Smith	Chief - Administrative Support Bureau
Jan VanRiper	Chief - State Insurance Fund Bureau
Hiram Shaw	Chief - Insurance Compliance Bureau
Ed Gatzemeier	Chief - Safety and Health Bureau

## SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

	<u>Page</u>
<b>Recommendation #1</b> We recommend the Division: A. Include all property items on its accounting records.	4
Agency Response: Concur. See page 26.	
B. Tag property items in accordance with state policy.	4
Agency Response: Concur. See page 26.	
<b>Recommendation #2</b> The division classify the crime victims' compensation account in the Special Revenue Fund as required by state law.	5
Agency Response: Concur. See page 26.	
<b>Recommendation #3</b> The division establish procedures to ensure deposits of highway patrol fines to the crime victims' compensation account are in compliance with state law.	6
Agency response: Concur. See page 27.	
<b>Recommendation #4</b> The division comply with state law by recovering indirect costs of federal assistance programs.	7
Agency response: Concur with qualification. See page 27.	
<b>Recommendation #5</b> The division formulate administrative rules that will set criteria for enforcing state law regarding advanced rate assessments for hazardous workplaces.	7
Agency response: Concur. See page 27.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #6</u> The division comply with state law regarding frequency of coal mine and boiler inspections.	8
Agency response: Concur. See page 27.	
<u>Recommendation #7</u> The division comply with federal regulations regarding cost allowability.	9
Agency response: Concur. See page 28.	

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## INTRODUCTION

We performed a financial-compliance audit of the Division of Workers' Compensation for the two fiscal years ended June 30, 1984. The objectives of the audit were to: (1) determine if the financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1984; (2) determine division compliance with applicable laws and regulations; and (3) recommend improvements in the management and internal accounting controls of the division.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the administrator and the staff of the division for their cooperation and assistance during our audit.

## BACKGROUND

The Division of Workers' Compensation was created as part of the Department of Labor and Industry under the Executive Reorganization Act of 1971. The division is attached to the Department of Labor and Industry for administrative purposes only.

The division administers industrial safety and health laws and the laws providing payment of benefits to workers injured in the course and scope of employment. The agency is divided into four major bureaus:

Administrative Support - provides overall support services to all bureaus and units.

State Compensation Insurance Fund - operates the state administered insurance system which allows employers an option for obtaining workers' compensation insurance.

Insurance Compliance - review workers' compensation benefits paid by self-insured employers and private insurance carriers.

Safety and Health - administers the occupational safety and health laws.

## Compensation Plans

Workers' compensation coverage can be obtained by employers in Montana in one of three compensation plans. Plan I is self-insurance by the employer. Under this plan the employer pays benefits directly to injured workers. Under Plan II the employer obtains coverage through private insurance. Benefits to injured workers are paid by the insurance company. Employers electing Plan III are covered through the state's workers' compensation insurance program. Injured workers receive benefits from the state compensation fund.

## PRIOR AUDIT RECOMMENDATIONS

The last audit of the Division of Workers' Compensation was performed by our office for the two fiscal years ended June 30, 1982. The audit report contained 24 recommendations of which 23 are still applicable to the division's operations. The division concurred with all of the recommendations. Of the 23 applicable recommendations, the division implemented 14, partially implemented 5, and did not implement 4. Discussion of recommendations not implemented concerning property accounting and boiler and coal mine inspections are covered on pages 3 and 7 in the report.

## TRANSACTION FORMS

Accounting transactions are input on the Statewide Budgeting and Accounting System (SBAS) on various types of forms. The form to be used is determined by the type of transaction. The Division of Workers' Compensation has been using a SBAS input document that bypasses most accounting system error detection controls. This document is used to record the compensation payments made daily by the division. Since these payments are not made through the State Auditor's Office, a form designed for payments made by an agency other than the State Auditor must be used. The division uses SBAS Form 274 - "Notice of Transaction Correction." This form should be used only to correct previously recorded transactions involving cash. It is important to minimize

the use of the form because it bypasses many of the accounting system's built-in verification procedures. Bypass of these computer edits increases the chances of out-of-balance entries, for instance, that would be rejected on another SBAS form. This bypass represents a significant internal control weakness in the recording of the division's daily payments.

We notified the agency of our concern during the audit and suggested they use a different form. Division officials stated they will begin writing compensation checks on the State Auditor's warrant writing system between July and October 1985. Use of the warrant writing system would eliminate the present use of the Form 274. Because the division intends to change the processing of compensation payments in the near future, we make no recommendation at this time.

#### PROPERTY ACCOUNTING

The State of Montana's accounting system includes a centrally maintained subsystem to manage and account for fixed assets owned by the state. The subsystem is known as the Property Accountability Management System (PAMS). The following paragraphs discuss problems we noted regarding the division's implementation of PAMS policies.

We noted three of thirteen property items in our sample testing were not included on the accounting records. The cost of the omitted items is approximately \$18,300. Accounting policy requires all fixed assets with a cost over \$200 be recorded in the property accounting records. We notified division officials of the unrecorded items during the audit. They responded that these exceptions had been noted during the division's fiscal year-end inventory and the records should have been corrected. According to an official, the correcting entries were forgotten.

One of the primary objectives of the PAMS is to maintain accountability for state property. Specific identification of property items is an integral part of such accountability and is achieved by tagging property items with property numbers. We

noted exceptions with PAMS property tags policies as discussed below.

In a sample of five property items added to the records since our last audit, two of the items did not have PAMS property tags. We also noted problems with the tagging of aggregate items. Tagging of aggregate items is appropriate if the total cost of like items (e.g., chairs) exceeds \$200, the useful life of the items is over one year, and the items are in the same location. We noted modular furniture was on the records as an aggregate item but the items were not separately tagged. We also noted some aggregate items were entered on the records with a single property number but were tagged with separate numbers. State accounting policy specifies aggregate items should be recorded on the records under one number and each item should be tagged with that same number.

RECOMMENDATION #1

WE RECOMMEND THE DIVISION:

- A. INCLUDE ALL PROPERTY ITEMS ON ITS ACCOUNTING RECORDS.
- B. TAG PROPERTY ITEMS IN ACCORDANCE WITH STATE POLICY.

STATE COMPLIANCE

We have examined the financial schedules of the Division of Workers' Compensation (DWC) for the two fiscal years ended June 30, 1984, and have issued our report thereon dated October 12, 1984. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Except for the instances of non-compliance described in the following sections, DWC complied with the terms and provisions of laws and regulations for the transactions tested. Nothing came to our attention in connection with our examination that caused us to

believe that DWC was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

#### Fund Misclassification

The Crime Victims' Compensation Account is misclassified on the Statewide Budgeting and Accounting System (SBAS). State law requires the account be included in the Special Revenue Fund, however, the agency includes it in the Expendable Trust Fund. Because the Expendable Trust Fund is a non-budgeted fund, the misclassification of this account avoids the appropriation process. Also, the Special Revenue Fund and the Expendable Trust Fund are understated and overstated, respectively, for all activity recorded in the Crime Victims' Compensation Account.

The account was misclassified because of an oversight by the Accounting Division of the Department of Administration. In preparing for conversion to a new treasury fund structure, new account numbers were assigned. The Crime Victims' Account was erroneously assigned an entity number placing it in the Expendable Trust Fund. Neither the Accounting Division nor Division of Workers' Compensation officials noticed the error in classification. Division officials stated they will request budget authority in the Special Revenue Fund for the Crime Victims' Compensation Account during the 1985 Legislative Session. Until budget authority is obtained the division will maintain the account in the Expendable Trust Fund.

#### RECOMMENDATION #2

WE RECOMMEND THE DIVISION CLASSIFY THE CRIME VICTIMS' COMPENSATION ACCOUNT IN THE SPECIAL REVENUE FUND AS REQUIRED BY STATE LAW.

#### Crime Victims' Fund Deposits

We tested twenty-three documents depositing highway patrol fines to the Crime Victims' Compensation Account and found eleven of the deposits did not comply with state law. The law requires

18 percent of highway patrol fines assessed be deposited into the account. The errors we noted were cases in which the amount deposited did not represent 18 percent of the total highway patrol fines on the depositing document. Some documents overstated the proper amount and some understated the proper amount. Misstatements ranged from \$943 greater to \$90 less than the 18 percent as stipulated in the law. These moneys are distributed by justice courts throughout the state to the county treasurers. The counties then remit the moneys to the Treasury Bureau of the Department of Administration where they are deposited in the Crime Victims' Compensation Account. Although the Division of Workers' Compensation is not involved in the determination of the amounts to be deposited or the deposits into the account, it should ensure the proper amounts are being deposited. The division could coordinate with the Treasury Bureau a procedure in which deposits into the fund are verified on a sample basis for accuracy and compliance with state law.

RECOMMENDATION #3

WE RECOMMEND THE DIVISION ESTABLISH PROCEDURES TO ENSURE DEPOSITS OF HIGHWAY PATROL FINES TO THE CRIME VICTIMS' COMPENSATION ACCOUNT ARE IN COMPLIANCE WITH STATE LAW.

Indirect Cost Reimbursement

The division has not complied with state law requiring that state agencies recover, to the fullest extent possible, indirect costs of federal assistance programs. We estimated the division could have recovered \$1,562 in fiscal year 1983 and \$979 in fiscal year 1984. The state General Fund absorbs these indirect costs when they are not recovered from the federal government. Division officials said they do not attempt to recover indirect costs due to the small dollar amounts involved. In the future they agreed to attempt to recover indirect costs if it is cost beneficial to prepare

a proposal. Because of the small dollar amounts recoverable, the division may want to negotiate a lump sum payment for each grant rather than an indirect cost reimbursement rate.

RECOMMENDATION #4

WE RECOMMEND THE DIVISION COMPLY WITH STATE LAW BY RECOVERING INDIRECT COSTS OF FEDERAL ASSISTANCE PROGRAMS.

Advanced Rate Assessments

The division is required to increase the rate assessment by 50 percent to employers covered under the state's insurance plan whose place of employment is unduly dangerous in comparison with like places and the employer has not complied with safety provisions of the Montana Safety Act. Division officials stated the advanced rate is not assessed. According to the officials the statute is not enforced because there are no rules providing criteria for determining a workplace to be more dangerous than similar workplaces. We did not determine the potential increase in premiums had the statute been enforced.

RECOMMENDATION #5

WE RECOMMEND THE DIVISION FORMULATE ADMINISTRATIVE RULES THAT WILL SET CRITERIA FOR ENFORCING STATE LAW REGARDING ADVANCED RATE ASSESSMENTS FOR HAZARDOUS WORKPLACES.

Coal Mine and Boiler Inspections

During our last audit, we noted the division was not complying with state laws requiring inspections of coal mines and boilers. A preliminary survey of the division's Safety Bureau performed by this office in April 1984 found these inspections are still not being performed as required. State law requires coal mine inspections on a quarterly basis and boiler inspections annually. Without such

inspections, the state is potentially liable for accidents involving unsafe coal mines or faulty boilers.

In response to our audit recommendations in the previous audit, the division submitted a bill to the legislature requesting the specification of coal mine inspectors be reduced to enable the division to hire an inspector to carry out the program within grade classification limits established by the state. The division also began development of a computer system to ensure comprehensive boiler inspections; however, the division estimated the system would not be operational until late fiscal year 1984. The cost of implementing our recommendation through those actions is not significant.

**RECOMMENDATION #6**

WE RECOMMEND THE DIVISION COMPLY WITH STATE LAW REGARDING FREQUENCY OF COAL MINE AND BOILER INSPECTIONS.

**FEDERAL COMPLIANCE**

The division receives a portion of its funding from federal sources which are detailed on page 25. Office of Management and Budget (OMB) "Circular A-102, Attachment P," established audit requirements for state and local governments receiving federal assistance. Attachment P provides for independent audits of financial operations, including compliance with certain federal laws and regulations. We performed our audit of the division in accordance with the standards of OMB "Circular A-102, Attachment P."

We reviewed the major compliance areas in the Mine Safety and Health Administration, OSHA, Statistical Grant Program, and OSHA On-Site Consultation grants. Areas reviewed include:

1. cash management,
2. reporting systems, and
3. cost allowability.

During our review we noted a compliance problem in cost allowability. We determined the effects of noncompliance on program accomplishments. In the following section we discuss a compliance issue requiring disclosure in accordance with Attachment P. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

As a result of our review, it is our opinion that the deficiency noted did not significantly affect the successful operation of the programs or, except as noted, the allowability of costs in conformity with program regulations for the grant programs.

#### Payroll Service Fees

The division incorrectly charged payroll service fees from the state's Central Payroll Division to the OSHA Statistical Grant Program and Mine Safety and Health Administration grants in fiscal year 1983. The grants were charged \$135 and \$27, respectively. These costs are not allowable for federal reimbursement as they are not charged based upon the costs of the services. The division could have recovered these costs through indirect cost recovery because they had been approved for inclusion in agency indirect cost plans. As noted on page 6 of this report, the division had no such agreement in fiscal year 1983. Division officials were not aware these costs were not allowable for federal reimbursement as a direct charge. We question the allowability of the cost reimbursements for payroll service fees.

#### RECOMMENDATION #7

WE RECOMMEND THE DIVISION COMPLY WITH FEDERAL REGULATIONS REGARDING COST ALLOWABILITY.

#### UNINSURED EMPLOYERS

##### Funding

The Uninsured Employers Fund, established by the 1977 Legislature to provide for workers' compensation payments to

injured workers not covered by their employers, has been insolvent since January 1981. No benefits have been paid since that time. Our previous report addressed reasons for the fund's insolvency. These reasons included lack of an aggressive collection effort by the division and a decrease in staff investigating uninsured employers. In our previous report we recommended the division seek legislation providing additional funding for the Uninsured Employers Fund. The division requested additional funding from the 1983 Legislature but the bill was rejected. Because the division took action on our recommendation from the prior audit, we make no further recommendation regarding the uninsured employer fund.

#### INTERNAL CONTROL

We have examined the financial schedules of the Division of Workers' Compensation for the two fiscal years ended June 30, 1984. We issued our opinion dated October 12, 1984, on these schedules. As part of our examination, we made a study and evaluation of the systems of control of the division. Our study evaluated the system as required by generally accepted governmental auditing standards for financial/compliance audits. We classified the controls in these categories: (1) revenue; (2) expenditures; (3) receivables; (4) cash; (5) payroll; (6) property, plant, and equipment; and (7) claims.

We evaluated controls over revenue, expenditures, payroll, claims, and property, plant, and equipment. We did not test controls for cash and receivables because it was more efficient to perform substantive testing. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the division is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required

to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the division. However, our study disclosed conditions that indicate internal control weaknesses. These conditions relating to transaction forms and property, plant, and equipment are discussed on pages 2 and 3, respectively.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial records. This report on internal control does not affect our opinion on the financial schedules.

The preceding five paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.



AUDITOR'S REPORT AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY



STATE OF MONTANA

Office of the Legislative Auditor



STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122

ROBERT R. RINGWOOD  
LEGISLATIVE AUDITOR

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FINANCIAL/COMPLIANCE AUDITS  
  
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PERFORMANCE AUDITS

STAFF LEGAL COUNSEL  
JOHN W. NORTHEY

The Legislative Audit Committee  
of the Montana State Legislature:

We have examined the financial schedules of the various funds of the Division of Workers' Compensation for each of the two fiscal years ended June 30, 1983 and 1984 as shown on pages 14 through 24. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the division's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

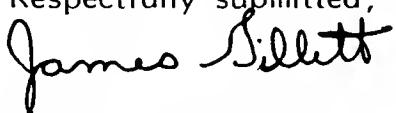
As described in Note 6 to the financial schedules, the Division of Workers' Compensation restructured its reporting format on the Schedule of Program Expenditures and Transfers Out by Fund - Budget and Actual and the Schedule of Program Expenditures and Transfers Out by Object for the fiscal year ended June 30, 1984. As a result, these schedules are not comparable between the two fiscal years under audit.

In our opinion, the schedules referred to in paragraph one present fairly the results of operations and the changes in fund balance of the various funds of the Division of Workers' Compensation for the two fiscal years ended June 30, 1984, in conformity

with the basis of accounting described in Note 1, except for the change, with which we concur, in the reporting format as described in Note 6 to the financial schedules.

Our examination was made for the purpose of forming an opinion on the basic financial schedules taken as a whole. The Schedule of Federal Grants and Subgrants is presented for purposes of additional analysis and is not a required part of the basic financial schedules. Such information has been subjected to the auditing procedures applied in the examination of the basic financial schedules and, in our opinion, is fairly stated in all material respects in relation to the financial schedules taken as a whole.

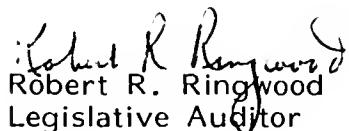
Respectfully submitted,



James H. Gillett, CPA  
Deputy Legislative Auditor

October 12, 1984

Approved:



Robert R. Ringwood  
Legislative Auditor

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF CHANGES IN FUND BALANCE  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Expendable Trust Fund</u>	<u>Pension<sup>1</sup> Fund</u>
FUND BALANCE, July 1, 1982	\$ <u>-0-</u>	\$ <u>(148,889)</u>	\$ <u>67,965,290</u>	\$ <u>2,731,011</u>
<b>ADDITIONS:</b>				
<u>Fiscal Year 1983</u>				
Budgeted Revenue and Transfers In		\$ 5,709,182		
Non-Budgeted Revenue and Transfers In		86,927	\$ 40,754,837	\$ 670,443
Total Revenue and Transfers In		<u>5,796,109</u>	<u>40,754,837</u>	<u>670,443</u>
Prior Year Revenue Adjustments		(12,721)	5,441,556	
Support From State of Montana	\$ 781,432			
<u>Fiscal Year 1984</u>				
Budgeted Revenue and Transfers In		6,307,741		
Non-Budgeted Revenue and Transfers In		91,416	45,388,287	
Total Revenue and Transfers In		<u>6,399,157</u>	<u>45,388,287</u>	
Prior Year Revenue Adjustments		3,721	(4,907)	
Support from State of Montana	772,616			
Direct Entries to Fund Balance		8,837		
Total Additions	<u>1,554,048</u>	<u>12,195,103</u>	<u>91,579,773</u>	<u>670,443</u>
<b>REDUCTIONS:</b>				
<u>Fiscal Year 1983</u>				
Budgeted Expenditures and Transfers Out	826,245	6,259,038		
Non-Budgeted Expenditures and Transfers Out			37,597,440	18,825
Total Expenditures and Transfers Out	<u>826,245</u>	<u>6,259,038</u>	<u>37,597,440</u>	<u>18,825</u>
Prior Year Expenditure Adjustments	(44,813)	8,344		
Non-Budgeted Prior Year Expenditure Adjustments			(13,396)	
Direct Entry to Fund Balance				305,960 <sup>2</sup>
<u>Fiscal Year 1984</u>				
Budgeted Expenditures and Transfers Out	783,743	5,830,095		
Non-Budgeted Expenditures and Transfers Out			43,629,693	
Total Expenditures and Transfers Out	<u>783,743</u>	<u>5,830,095</u>	<u>43,629,693</u>	
Prior Year Expenditure Adjustments	(11,127)	(38,179)		
Non-Budgeted Prior Year Expenditure Adjustments			(6,886)	
Direct Entry to Fund Balance				3,076,669 <sup>3</sup>
Total Reductions	<u>1,554,048</u>	<u>12,059,298</u>	<u>81,206,851</u>	<u>3,401,454</u>
FUND BALANCE, June 30, 1984	<u>\$ -0-</u>	<u>\$ (13,084)</u>	<u>\$ 78,338,212</u>	<u>\$ -0-</u>

<sup>1</sup>This fund is the Volunteer Firefighters' Compensation Fund. Prior to fiscal year 1984, the Division of Workers' Compensation collected premium taxes from the State Auditor. These funds are expended by the Public Employees' Retirement Division (PERD) as pension benefits to retired firefighters.

<sup>2</sup>This represents a transfer of funds to the Public Employees' Retirement Division.

<sup>3</sup>This entry is a transfer of the fund balance at July 1, 1983 to PERD, which assumed total administrative responsibility over the fund at that date.

Revenue estimates are not presented in the Expendable Trust Fund and Pension Fund as these funds are not budgeted funds.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 24.

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF REVENUE AND TRANSFERS IN - ESTIMATE AND ACTUAL  
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

<u>Fiscal Year 1983-84</u>	<u>Licenses and Permits</u>	<u>Service Fee</u>	<u>Reim- bursements</u>	<u>Transfers</u>	<u>Federal Assistance</u>	<u>Investment Earnings</u>	<u>Fiduciary and Trust</u>	<u>Fines</u>	<u>Totals</u>
Special Revenue Fund									
Estimated Revenue	\$26,000	\$1,515,000	\$ -0-	\$4,701,600 <sup>1</sup>	\$ 69,211				\$ 6,311,811
Actual Revenue	26,695	1,525,780	58,429	4,719,720	68,533				6,399,157
Collections Over(Under) Estimate	\$ 695	\$ 10,780	\$58,429	\$ 18,120	\$ (678)				87,346
Expendable Trust Fund									
Estimated Revenue		\$ -0-			\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Actual Revenue		54,000			7,591,171	37,265,183	477,933	45,388,287	
Collections Over(Under) Estimate		\$ 54,000			\$7,591,171	\$37,265,183	\$477,933	\$45,388,287	
<u>Fiscal Year 1982-83</u>	<u>Licenses and Permits</u>	<u>Service Fee</u>	<u>Reim- bursements</u>	<u>Transfers</u>	<u>Federal Assistance</u>	<u>Investment Earnings</u>	<u>Fiduciary and Trust</u>	<u>Fines</u>	<u>Totals</u>
Special Revenue Fund									
Estimated Revenue	\$27,000	\$1,669,000	\$ -0-	\$3,985,000	\$ 90,149				\$ 5,771,149
Actual Revenue	30,267	1,684,992	81,707	3,931,803	67,340				5,796,109
Collections Over(Under) Estimate	\$ 3,267	\$ 15,992	\$81,707	\$ (53,197)	\$ (22,809)				\$ 24,960
Pension Fund									
Estimated Revenue					\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Actual Revenue					316,730	353,713			670,443
Collections Over(Under) Estimate					\$ 316,730	\$ 353,713			\$ 670,443
Expendable Trust Fund									
Estimated Revenue	\$ -0-				\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Actual Revenue		37,917			6,838,695	33,123,782	754,443	40,754,837	
Collections Over(Under) Estimate	\$ 37,917				\$6,838,695	\$33,123,782	\$754,443	\$40,754,837	

<sup>1</sup> \$20,894 of this total is the change in inventory for fiscal year 1984 rather than transfers.

Revenue estimates are not presented in the Expendable Trust Fund and Pension Fund as these funds are not budgeted funds.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 24.

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY FUND - BUDGET AND ACTUAL  
FOR FISCAL YEAR ENDED JUNE 30, 1984

	<u>Administration</u>	<u>State Insurance Fund</u>	<u>Insurance Compliance</u>	<u>Safety and Health</u>	<u>Total</u>
<b>GENERAL FUND</b>					
Budget			\$ 800,060		\$ 800,060
Actual			8,191		8,191
Personal Services			3,827		3,827
Operating Expenses			771,725		771,725
Benefits and Claims			<u>783,743</u>		<u>783,743</u>
Total Actual			<u>783,743</u>		<u>783,743</u>
Unspent Appropriation Authority			<u>\$ 16,317</u>		<u>\$ 16,317</u>
<b>SPECIAL REVENUE FUND</b>					
Budget	<u>\$ 2,613,261</u>	<u>\$ 2,294,482</u>	<u>\$ 847,239</u>	<u>\$ 841,268</u>	<u>\$ 6,596,250</u>
Actual					
Personal Services	924,777	1,221,951	623,711	634,852	3,405,291
Operating Expenses	848,171	980,303	141,522	146,692	2,116,688
Equipment	118,025	51,522	450	2,231	172,228
Transfers	135,888				135,888
Total Actual	<u>2,026,861</u>	<u>2,253,776</u>	<u>765,683</u>	<u>783,775</u>	<u>5,830,095</u>
Unspent Appropriation Authority	<u>\$ 586,400</u>	<u>\$ 40,706</u>	<u>\$ 81,556</u>	<u>\$ 57,493</u>	<u>\$ 766,155</u>
<b>EXPENDABLE TRUST FUND</b> (No Budget required)					
Actual					
Operating Expenses	\$ 155,524				\$ 155,524
Benefits and Claims	37,894,439	\$ 560,070			38,454,509
Transfers	4,843,837	175,823			5,019,660
Total Actual	<u>\$ 42,893,800</u>	<u>\$ 735,893</u>			<u>\$ 43,629,693</u>
<b>PROGRAM TOTAL</b>					
Actual					
Personal Services	924,777	1,221,951	631,902	634,852	3,413,482
Operating Expenses	848,171	1,135,827	145,349	146,692	2,276,039
Equipment	118,025	51,522	450	2,231	172,228
Benefits and Claims		37,894,439	1,331,795		39,226,234
Transfers	135,888	4,843,837	175,823		5,155,548
Total Actual	<u>\$ 2,026,861</u>	<u>\$ 45,147,576</u>	<u>\$ 2,285,319</u>	<u>\$ 783,775</u>	<u>\$ 50,243,531</u>

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 24.

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY FUND - BUDGET AND ACTUAL  
FOR FISCAL YEAR ENDED JUNE 30, 1983

	<u>Division of Workers' Compensation</u>	<u>Administration</u>	<u>State Insurance Fund</u>	<u>Insurance Compliance</u>	<u>Total</u>
GENERAL FUND					
Budget	\$ 861,886				\$ 861,886
Actual					7,278
Personal Services	7,278				7,278
Operating Expenses	1,902				1,902
Benefits and Claims	817,065				817,065
Total Actual	826,245				826,245
Unspent Appropriation Authority	\$ 35,641				\$ 35,641
SPECIAL REVENUE FUND					
Budget	\$6,348,094				\$ 6,348,094
Actual					
Personal Services	3,490,935				3,490,935
Operating Expenses	1,580,791				1,580,791
Equipment	560,969				560,969
Transfers	626,343				626,343
Total Actual	6,259,038				6,259,038
Unspent Appropriation Authority	\$ 89,056				\$ 89,056
EXPENDABLE TRUST FUND					
(No Budget required)					
Actual					
Operating Expenses	\$ 181,051		\$ 392,322		\$ 573,373
Benefits and Claims	466,187		32,130,185		32,596,372
Local Assistance					
Transfers	196,611		4,231,084		4,427,695
Total Actual	\$ 843,849		\$ 36,753,591		\$ 37,597,440
PENSION FUND					
(No Budget required)					
Actual					
Operating Expenses					
Benefits and Claims				\$ 18,825	\$ 18,825
Local Assistance					
Transfers					
Total Actual				\$ 18,825	\$ 18,825
PROGRAM TOTAL					
Actual					
Personal Services	3,498,213				3,498,213
Operating Expenses	1,582,693	\$ 181,051	\$ 392,322		2,156,066
Equipment	560,969				560,969
Benefits and Claims	817,065	466,187	32,130,185		33,413,437
Local Assistance				\$ 18,825	18,825
Transfers	626,343	196,611	4,231,084		5,054,038
Total Actual	\$7,085,283	\$ 843,849	\$ 36,753,591	\$ 18,825	\$ 44,701,548

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 24.





**DIVISION OF WORKERS' COMPENSATION**  
**DEPARTMENT OF LABOR AND INDUSTRY**  
**SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT**  
**FOR FISCAL YEAR ENDED JUNE 30, 1984**

	<u>Administration</u>	<u>State Insurance Fund</u>	<u>Insurance Compliance</u>	<u>Safety and Health</u>	<u>Total</u>
<b>PERSONAL SERVICES</b>					
Salaries	\$ 766,814	\$ 1,001,465	\$ 522,397	\$ 522,520	\$ 2,813,196
Hourly Wages	1,567	7,191	1,236		9,994
Employee Benefits	156,396	213,295	108,269	112,332	590,292
<b>Total Personal Services</b>	<b>924,777</b>	<b>1,221,951</b>	<b>631,902</b>	<b>634,852</b>	<b>3,413,482</b>
<b>OPERATING EXPENSES</b>					
Contracted Services	593,191	763,882	59,309	7,576	1,423,958
Supplies & Materials	15,965	35,218	17,949	24,611	93,743
Communications	21,969	133,012	39,281	20,910	215,172
Travel	4,748	24,394	18,550	83,297	130,989
Rent	110,121		1,692	7	111,820
Utilities	24,526				24,526
Repair and Maintenance	11,227 <sup>1</sup>	19,448 <sup>2</sup>	7,096	8,610	46,381
Other Expenses	66,424 <sup>1</sup>	159,873 <sup>2</sup>	1,472	1,681	229,450
<b>Total Operating Expenses</b>	<b>848,171</b>	<b>1,135,827</b>	<b>145,349</b>	<b>146,692</b>	<b>2,276,039</b>
<b>EQUIPMENT</b>					
Equipment	118,025	51,522	450	2,231	172,228
<b>Total Equipment</b>	<b>118,025</b>	<b>51,522</b>	<b>450</b>	<b>2,231</b>	<b>172,228</b>
<b>BENEFITS AND CLAIMS</b>					
<b>Total Benefits &amp; Claims</b>		<b>37,894,439</b>	<b>1,331,795<sup>3</sup></b>		<b>39,226,234</b>
<b>TRANSFERS</b>					
Transfers	135,888	4,843,837	175,823		5,155,548
<b>Total Transfers</b>	<b>135,888</b>	<b>4,843,837</b>	<b>175,823</b>		<b>5,155,548</b>
<b>TOTAL PROGRAM EXPENDITURES</b>	<b>\$2,026,861</b>	<b>\$45,147,576</b>	<b>\$2,285,319</b>	<b>\$783,775</b>	<b>\$50,243,531</b>

<sup>1</sup>Expenses primarily for indirect/administrative costs \$(29,196) and relocation \$(31,087).

<sup>2</sup>\$155,524 of this amount is interest expense.

<sup>3</sup>\$219,561 Subsequent Injury Fund benefit payments; \$340,509 Crime Victims' Compensation payments; \$686,900 silicosis benefits; and \$84,825 Social Security offset payments.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 24.

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT  
FOR FISCAL YEAR ENDED JUNE 30, 1983

	Division of Workers' Compensation	Admin- istration	State Insurance	Insurance Compliance	<u>Total</u>
<b>PERSONAL SERVICES</b>					
Salaries	\$2,905,751				\$ 2,905,751
Hourly Wages	2,207				2,207
Employee Benefits	590,255				590,255
<b>Total Personal Services</b>	<u>3,498,213</u>				<u>3,498,213</u>
<b>OPERATING EXPENSES</b>					
Contracted Services	790,072				790,072
Supplies & Materials	111,344				111,344
Communications	199,096				199,096
Travel	213,624				213,624
Rent	163,952				163,952
Utilities	18,071				18,071
Repair and Maintenance	66,472				66,472
Other Expenses	20,062	\$181,051 <sup>1</sup>	\$ 392,322 <sup>2</sup>		593,435
<b>Total Operating Expenses</b>	<u>1,582,693</u>	<u>181,051</u>	<u>392,322</u>		<u>2,156,066</u>
<b>EQUIPMENT</b>					
Equipment	541,246				541,246
Capital Lease	19,723				19,723
<b>Total Equipment</b>	<u>560,969</u>				<u>560,969</u>
<b>LOCAL ASSISTANCE</b>					
From State Sources				\$18,300	18,300
From Federal Sources				525	525
<b>Total Local Assistance</b>				<u>18,825</u>	<u>18,825</u>
<b>BENEFITS AND CLAIMS</b>	<u>817,065<sup>3</sup></u>	<u>466,187<sup>4</sup></u>	<u>32,130,185</u>		<u>33,413,437</u>
<b>Total Benefits &amp; Claims</b>	<u>817,065</u>	<u>466,187</u>	<u>32,130,185</u>		<u>33,413,437</u>
<b>TRANSFERS</b>					
Transfers	626,343	196,611	4,231,084		5,054,038
<b>Total Transfers</b>	<u>626,343</u>	<u>196,611</u>	<u>4,231,084</u>		<u>5,054,038</u>
<b>TOTAL PROGRAM EXPENDITURES</b>	<u>\$7,085,283</u>	<u>\$843,849</u>	<u>\$36,753,591</u>	<u>\$18,825</u>	<u>\$44,701,548</u>

<sup>1</sup> Consists totally of bad debt expenses.

<sup>2</sup> Consists of \$248,912 bad debt expense; \$143,410 interest expense.

<sup>3</sup> \$727,425 silicosis benefits; \$89,640 Social Security offset payments.

<sup>4</sup> \$357,731 Crime Victims' Compensation payments; \$102,539 Subsequent Injury Fund benefit payments; and \$5,917 Uninsured Employers' payments.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 24.

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO AGENCY FUND ASSETS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

Asset Balance, July 1, 1982	\$11,704,000
Additions to Property Held in Trust	1,235,000
Reductions to Property Held in Trust	<u>-0-</u>
Asset Balance, June 30, 1983	\$12,939,000
Additions to Property Held in Trust	775,000
Reductions to Property Held in Trust	<u>60,000</u>
Asset Fund Balance, June 30, 1984	<u><u>\$13,654,000</u></u>

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 24.

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY  
NOTES TO THE FINANCIAL SCHEDULES

JUNE 30, 1984

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the significant accounting policies.

**Basis of Presentation**

The financial schedules are prepared from the Statewide Budgeting and Accounting System. Accounts are organized on the basis of funds according to state law. The following fund types are used by the division.

General Fund - accounts for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Trust and Agency Fund - accounts for assets held in trust or as an agent by the division for others. A legislative appropriation is not required to spend from these funds.

**Basis of Accounting**

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

--If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years

subsequent to the fiscal year in which the expenditure is accrued.

--The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

--Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

## 2. VACATION AND SICK LEAVE

Employees of the division accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Division of Workers' Compensation. Expenditures for termination pay currently are absorbed in the annual operational costs of the division. At June 30, 1984, the division has a liability of \$219,075 for vacation leave and \$100,461 for sick leave.

## 3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The division's contributions to the plan in fiscal years 1983 and 1984 were \$183,426 and \$180,795, respectively.

## 4. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus on an agency schedule the beginning and ending fund balance will always be zero.

## 5. BUILDING

The 47th Legislature appropriated funds for the construction of a Workers' Compensation Building. Annual payments on the

building are expensed in the division's operating budget. The annual payment for fiscal years 1983 and 1984 were \$626,343 and \$135,888, respectively. Obligations on the building are as follows:

1985	\$434,550	1991	\$427,987
1986	434,462	1992	429,075
1987	433,100	1993	428,200
1988	430,462	1994	424,412
1989	431,337	1995	442,412
1990	430,512	1996	292,775

The long-term debt associated with the building is reported on the financial statements of the Department of Administration.

#### 6. EXPENDITURES REPORTING

The division utilized different programs to report expenditures in the two fiscal years under audit. The following programs were utilized in the respective fiscal years.

##### Fiscal Year 1982-83

Division of Workers' Compensation  
Administration  
State Insurance Fund  
Insurance Compliance

##### Fiscal Year 1983-84

Administration  
State Insurance Fund  
Insurance Compliance  
Safety and Health

#### 7. LITIGATION

A. The Montana Supreme Court recently decided against the state compensation insurance fund in the case of Henry Willis versus Long Construction Company (41 St. Rep. 2050, Dec. 1984). The dispute involved the legality of discounting lump sum payments of compensation benefits. Before the court decision, benefits converted to a lump sum were discounted to present value.

The Supreme Court held that state law does not permit such discounting.

The division has estimated the court ruling will cost the state fund \$7 to \$8 million for claims existing at June 30, 1984 unless state law is revised. Additional liability will result from claims filed after June 30, 1984. The division will increase insurance fund premiums 15 percent on January 1, 1985 to compensate for the additional costs. The division is also submitting a request for legislative action to revise state law to allow discounting of lump sum settlements.

B. The Workers' Compensation Court recently decided against the state compensation insurance fund in the case of Ronald Tiedeman versus Cooper Logging and State Fund, Workers' Compensation Court No. 8403-2406, Montana Supreme Court No. 84-500. The State Fund has appealed the Workers' Compensation Court's decision to the Supreme Court.

At issue is the question of adjusting a claimant's settlement regarding a subsequent injury for amounts previously awarded for injuries to that same body member. The Workers' Compensation Court held that in computing a claimant's entitlement to benefits the State Fund is not entitled to credit for any part of a previous award. At this point the potential financial impact of the case is not estimable but it may have an adverse impact if the decision of the Workers' Compensation Court is upheld.

DIVISION OF WORKERS' COMPENSATION  
DEPARTMENT OF LABOR AND INDUSTRY  
SCHEDULE OF FEDERAL GRANTS AND SUBGRANTS  
GRANT AWARDS, RECEIPTS, AND EXPENDITURES  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

FISCAL YEAR 1983

<u>Grant Name and Number</u>	<u>Grant Award</u>	<u>Receipts</u>	<u>Expenditures</u>
U.S. Department of Labor: Mine Safety and Health Administration Training and Education of Miners, Operators and Agents in Mine Health and Safety #G2690213	\$38,113	\$32,521	\$33,665
Occupational Safety and Health Administration 7(C) 1 On-Site Consultation (OSHA/1908) #J9F-2-0981	73,900	75,557	75,557
Bureau of Labor Statistics - OSHA Statistical Grant Program #08-81-40-02-83	38,536	34,819	35,465

FISCAL YEAR 1984

<u>Grant Name and Number</u>	<u>Grant Award</u>	<u>Receipts</u>	<u>Expenditures</u>
U.S. Department of Labor: Mine Safety and Health Administration Training and Education of Miners, Operators and Agents in Mine Health and Safety #G2690213	\$35,014	\$33,755	\$33,755
Occupational Safety and Health Administration 7(C) 1 On-Site Consultation (OSHA/1908) #J9F-4-0981	71,200	56,676	56,676
Bureau of Labor Statistics - OSHA Statistical Grant Program #08-81-40-03-83	45,596	34,778	34,778

Grant award amounts are based on federal fiscal year.

AGENCY RESPONSE



DEPARTMENT OF LABOR AND INDUSTRY  
COMMISSIONER'S OFFICE



TED SCHWINDEN, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 444-3661

HELENA, MONTANA 59620

February 4, 1985

RECEIVED

MONTANA ~~LEGISLATIVE~~ AUDITOR

Senator Matt Himsel, Chairperson  
Legislative Audit Committee  
Montana State Legislature  
Office of Legislative Auditor  
State Capitol  
Helena, MT 59620

Dear Senator Himsel:

We have reviewed the audit report for the Department of Labor and Industry, Workers' Compensation Division, from July 1, 1982 through June 30, 1984. Following is the response of the Department of Labor and Industry, Workers' Compensation Division, to the recommendations contained in the report:

RECOMMENDATION #1

We recommend the Division:

- A. Include all property items on its accounting records.
- B. Tag property items in accordance with state policy.

Concur

An annual physical inventory is conducted to verify that all property items are included on the accounting records. The accounting records will be adjusted by June 30th of each year to reflect any discrepancies noted during the physical inventory. The PAMS policy will be completely reviewed and any deficiencies in the manner in which the Division tags its property will be corrected by June 30, 1985.

RECOMMENDATION #2

We recommend the Division classify the Crime Victims' Compensation Account in the Special Revenue Fund as required by state law.

Concur

A request that the Crime Victims' Account be appropriated for the 1986-1987 biennium was included in the Division's budget request to the 1985 Legislature.

RECOMMENDATION #3

We recommend the Division establish procedures to ensure deposits of highway patrol fines to the Crime Victims' Compensation Account are in compliance with state law.

Concur

Arrangements will be made with the Treasury Bureau for Division personnel to verify deposits on a sample basis to ensure accuracy and compliance with state law.

RECOMMENDATION #4

We recommend the Division comply with state law by recovering indirect costs of federal assistance programs.

Concur with Qualification

The Division concurs that state law requires the recovery of indirect costs. As the audit report states, however, because of the small amount of costs available for recovery, it may not be cost-beneficial to attempt the recovery. The Division will evaluate the cost-effectiveness of complying with this recommendation and will effect recovery if the effort will result in a net increase.

RECOMMENDATION #5

We recommend the Division formulate administrative rules that will set criteria for enforcing state law regarding advanced rate assessments for hazardous workplaces.

Concur

Administrative rules will be formulated in accordance with the Administrative Procedures Act and noticed for public comment by June 30, 1986.

RECOMMENDATION #6

We recommend the agency comply with state law regarding frequency of coal mine and boiler inspection.

Concur

The Division attempted to lessen the frequency of coal mine and boiler inspections through legislation in the 1985 Session (House Bill 138 and House Bill 158); however, the legislation failed to pass the House. The Division will comply with state law regarding frequency of coal mine and boiler inspections through the remainder of this biennium and throughout the next biennium by reassigning personnel currently conducting non-mandated inspections to legally-mandated inspections. The Division will seek additional positions in the 1987 legislative session if the reassessments materially affect the Department's ability to inspect high-hazard workplaces.

RECOMMENDATION #7

We recommend the Division comply with federal regulations regarding cost allowability.

Concur

The Division will no longer charge payroll service fees to federal grants.

COMMENTS ON LETTER TO LEGISLATIVE AUDIT COMMITTEE

Paragraph 3 states:

"As described in Note 6 to the financial schedules, the Division of Workers' Compensation restructured its reporting format on the Schedule of Program Expenditures and Transfers Out by Fund - Budget and Actual and the Schedule of Program Expenditures and Transfers Out by Object for the fiscal year ended June 30, 1984. As a result, these schedules are not comparable between the two fiscal years under audit."

This assessment results from a comparison of SBAS Form 663 for Fiscal Years 1983 and 1984 by the Legislative Audit staff. The Division did not change its reporting format. In fact, SBAS Form 663 is not comparable because of change made by the Office of Budget and Program Planning. For all fiscal years prior to 1984, the Division operated with one appropriation for all of its programs. The Office of Budget and Program Planning required separate appropriations for each program beginning in Fiscal Year 1984. A comparison of Fiscal Years 1983 and 1984 can be accomplished through review of SBAS Form 662.

If you have any questions, please contact me.

Sincerely,

*David Wanzenried*  
DAVID E. WANZENRIED  
Commissioner



